

BOARD PAPER

Paper no:	14/08/0849
Meeting date:	15 August 2014
Prepared by:	Bob Alkema (National Manager Investment)
Recommended by:	Dave Brash, Group Manager (Planning and Investment)
Board function:	Setting sector and organisational direction
Subject:	2015-18 NLTP development investment signals



PURPOSE

1. To seek the NZTA Board's agreement to releasing National Land Transport Investment signals that are based on indicative levels within each of the GPS activity Class funding ranges, and to our approach to communicating these signals.



SUMMARY

2. We have determined the indicative activity class allocations within the draft GPS activity class funding ranges that we believe will shape the NLTP to give effect to the results set out in the draft GPS. Rather than release the indicative activity class allocations we propose to use the updated investment signals to provide the key messages to our co-investment partners.
3. These investment signals also reflect the draft Investment Assessment Framework and provide key process and priority messaging. The signals will include a set of summary factsheets, underpinned by the Planning and Investment Knowledge Base guidance on the draft Investment Assessment Framework and guidance on individual activity classes.



RECOMMENDATIONS

4. That the New Zealand Transport Agency Board **agrees** to the release of the August 2014 investment signals for the 2015-18 National Land Transport Programme that are based on indicative levels within each of the GPS activity Class funding ranges, and to our approach to communicating these signals.



BACKGROUND

5. At the July Board meeting (14/07/0822) the Board agreed to release a set of investment signals to the sector based on the draft Investment Assessment Framework. We have previously communicated investment priorities and process signals in December 2013 and May 2014 to give clear and concise signals and provide one source of the truth.
6. There are two key components that our ongoing investment signals will be based on; the indicative investment levels and the Investment Assessment Framework.



INDICATIVE INVESTMENT LEVELS

7. In the lead-up to the last two NLTPs we have communicated to approved organisations, Transport Agency (HNO), NZ Police and other Transport Agency staff the general level in the GPS funding range of each activity class at which we intend to invest. In each NLTP the Board has endorsed the indicative investment levels.
8. This approach has allowed us to counter industry perceptions about funding availability where these were unlikely to result in our desired outcomes. However, the indicative allocations themselves were not meaningful to an individual approved organisation as it is only one of many that receives funding from some activity classes, such as local road maintenance and public transport services activity classes.

9. For development of the 2015-18 NLTP, we intend to break with this practice we are not aware of widespread misperceptions about funding availability as existed in the lead up to the previous two NLTPs. Rather than provide the indicative investment levels to approved organisations, we will provide the signals that are the foundation of, and derived from, our setting the levels. Accordingly, we seek your endorsement of the use of signals rather than the levels as the basis for communication.
10. The indicative investment levels and associated information, which is available in the Board Resource Centre, will be used to communicate within the Transport Agency to provide signals to staff for their negotiations with approved organisations and discussions with Regional Transport Committees.
11. An indication of where we intend to invest within each of the GPS funding ranges is shown in the table below. A fuller summary of the indicative investment levels analysis is provided in Attachment 1.

Activity class	Draft GPS funding range in 2015-18 NLTP	Indicative investment position in range
State highway improvements	\$3,150M - \$4,350M	Mid plus
State highway maintenance	\$1,350M - \$1,810M	High
Local road improvements	\$465M - \$720M	Mid minus
Local road maintenance	\$1,230M - \$1,740M	High
Regional improvements	\$180M - \$270M	Mid

Walking & cycling	\$46M - \$103M	Mid
Public transport	\$865M - \$1,200M	Mid
Road safety promotion	\$92M - \$113M	Mid
Road policing	\$855M - \$975M	Mid plus
Investment management	\$162M - \$180M	Mid



INVESTMENT ASSESSMENT FRAMEWORK

12. The proposed investment signals and key messages are primarily derived from the draft Government Policy Statement and the developing Investment Assessment Framework, which is being covered under a separate paper at this meeting (Board paper 14/08/0854). More detailed information will include assessment criteria for activities within each activity class.
13. The Ministry of Transport has signalled that release of the final GPS will be delayed until late 2014. When this is released, we will determine whether any variations are significant and if a further updated set of signals is required.



INVESTMENT SIGNALS

14. We seek to release an updated set of investment signals to the sector early in September 2014. These reflect the indicative investment levels and draft Investment Assessment Framework and provide key process and priority messaging.
15. These signals build on the earlier planning and investment signals derived from the Transport Planning Overview and evidence base (November 2013), and RLTP and NLTP process and optimisation signals (May 2014).
16. They will be tailored to provide the information that approved organisations and regional transport committees need in developing their RLTPs, and will incorporate signals derived from four sources:
 - GPS signals: translated through the draft Investment Assessment Framework
 - planning signals: for example, reinforcing application of activity management planning, One Network Road Classification and business case approach
 - process signals: for example, input to our Transport Investment Online funding system and how we develop the NLTP (increasing the transparency of the NLTP optimisation process)
 - activity signals: information specific to the individual activity classes, including the new regional improvements activity class, and the interplay with the accelerated regional projects, largely based on the indicative investment levels analysis.
17. A number of key messages will be communicated within the investment signals as set out in the following sections

Candidate project lists for local road improvements

18. The combined effects of the FAR review, accelerated regional projects, new regional improvements activity class and a higher GPS funding range for local roads improvements all signal the need for a substantive volume of local road activities for investment within the NLTP period. However, early indications, in particular from Auckland Transport, are that local share could be limited as councils work to constrain rates increases. This suggests a wide range of worthy candidate projects is needed to select from for the NLTP development.

Maintenance funding is constrained

19. There is little upward flexibility in maintenance activity classes. Despite the increase in both local roads and state highway GPS funding ranges, the impacts of the FAR review and likely input cost increases means the constrained funding environment will continue, as will the pressure to deliver efficiency dividends.

Public Transport Operating Model efficiencies

20. There are strong expectations of efficiency dividends as a result of the PTOM implementation, although this may be preceded by short term cost increases as part of the transition. While it will take time for the benefits to be realised, we expect these to be clearly outlined in investment proposals.

Increase in state highway programme delivery

21. The combination of state highway improvements, regional improvements, Crown appropriations and debt funding requires an approximate 25 percent lift in state highway improvements expenditure relative to 2012-15. The State Highway Activity Management Plan (SHAMP) provides the basis for this investment.

Regional improvements activity

22. The draft GPS signals a desire of Government to invest in regionally important roading projects that address freight, safety, resilience and tourism issues at a regional level. This will be a contestable fund available across areas which are not well addressed or prioritised through the national funding system.

Resilience

23. We seek better clarity on network resilience and reliability in the 2015-18 NLTP. This encompasses the critical points of the network where the economic and social impact of disruption are greatest, which will be assessed in terms of the likelihood of a disruptive event occurring and the impact on network users. This should include lifeline access in emergencies, exposure to risk, availability of alternatives, and ability to recover from events.

Optimised investment through robust activity development

24. Continued reinforcement of the Transport Agency's planning and investment principles, which are underpinned by the business case approach, hierarchy of interventions, one network approach and an integrated approach to network planning.

Funding sources and priority expectations

25. A number of factors during the 2015-18 NLTP will influence the priority order of activities delivered. These include the usual national funds (N funds), remaining regional funding (R funds), the accelerated Auckland programme, future investment fund, and the new regional improvements activity class. To achieve investment within the funding ranges set in the draft GPS, and meet the requirements of different funding sources, it is likely that different activity classes will have different funding priority thresholds.



STRUCTURE OF INVESTMENT SIGNALS

26. We propose to structure the investment signals as a set of summary factsheets and detailed guidance and policy in the Planning and Investment Knowledge Base.
27. Summary factsheets – key summary information for all users in a 5-minute read. These build on the previous signals packs and include:
 - draft Investment Assessment Framework (and draft GPS)
 - optimising the inputs to the NLTP
 - developing the NLTP (improving transparency of our moderation process)
 - Transport Investment Online
 - NLTP timeframes.
28. Planning and Investment Knowledge Base– detailed content for practitioners and applicants to the NLTP which underpins the Investment Assessment Framework. This operational policy and guidance for all activities will incorporate:
 - Investment Assessment Framework criteria, definitions, data and supporting evidence base
 - key messages for each activity class
 - operational policy and variations from the 2012-15 NLTP
 - process guidelines and resources available to assist programme development
 - our planning and investment principles.

29. As the NLTP development continues, and the Investment Assessment Framework is finalised, the knowledge base will be updated to ensure that all practitioners have access to the most up to date information. Registered users are automatically notified of changes when these occur.

RISKS

30. Releasing the investment signals and draft Investment Assessment Framework, based on the draft GPS, risks substantial rework by all organisations if the final GPS differs substantially from the draft. However, we are reasonably confident that any changes will not be substantial and the risk is warranted to achieve the Board's 30 June 2015 deadline for adoption of the NLTP.

FINANCIAL IMPLICATIONS

31. There are no financial implications to this paper.

COMMUNICATION AND ENGAGEMENT

32. As with the previous planning and investment signals, we will develop a comprehensive communications and engagement plan to support the release. This will include up-skilling internal staff to ensure they are equipped to have the conversation with our external stakeholders.



ATTACHMENT

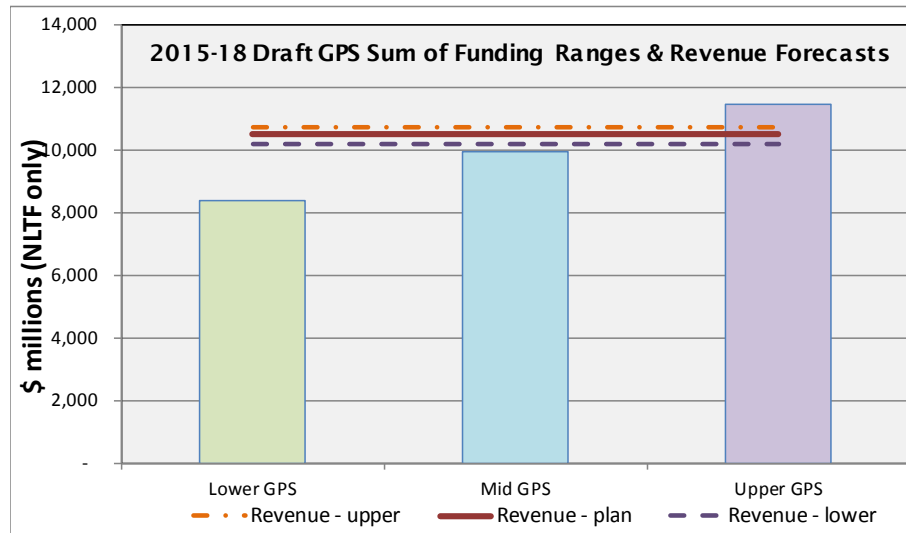
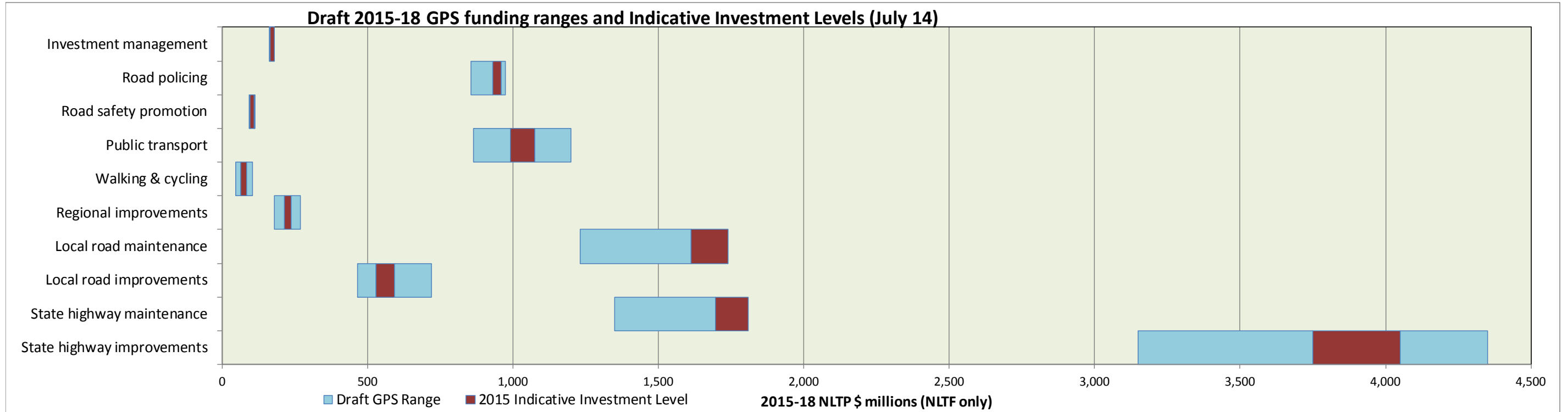
33. There is one attachment: Summary of indicative investment levels for 2015-18 NLTP.

Attachment 1: Summary of indicative investment levels for 2015-18 NLTP

2015-18 NLTF Indicative Investment Levels

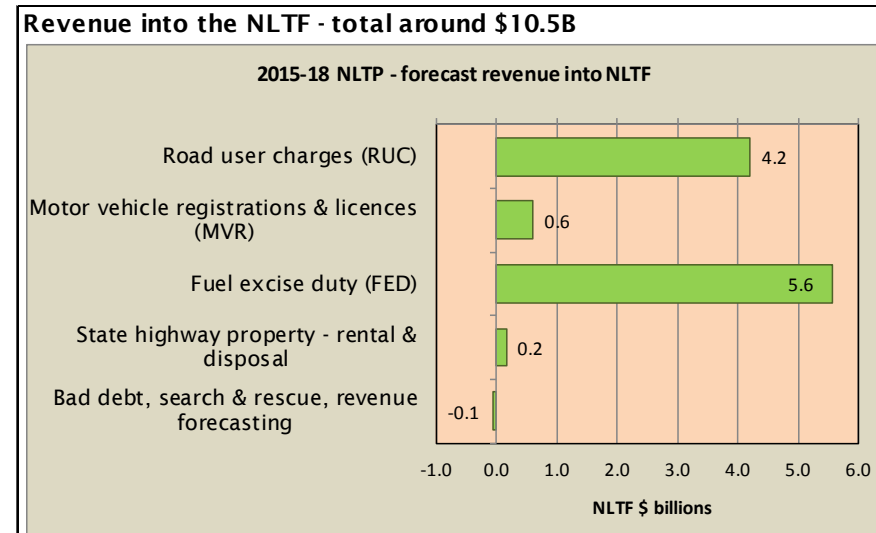
Summary & Overview

Indicative investment levels are determined to provide visibility of where we are likely to position our investment from the NLTF within the GPS funding range of each activity class for the 2015-18 NLTP.



Graph shows that:

- > we cannot fund all activity classes at the top of their GPS funding ranges due to insufficient revenue
- > we can fund above the mid point of the average funding range of all activity classes
- > if we fund some activity classes toward the top of their funding ranges, others will need to be funded at lower levels to balance to revenue



Main issues:

- > NZ economic growth - RUC km growth assumed at 2.7% pa - highly dependant on continued performance of economy - Treasury's economic forecast is basis of revenue forecast
- > Vehicle km travelled and fuel usage per km - FED revenue dependant on population growth and demand for private vehicle use, while general car fuel efficiency is improving - zero petrol volume growth assumed over the 3 year NLTP mitigates some risk
- > FED & RUC price increases - 3c/litre in 2014/15 has been approved by Cabinet - then CPI increases over next 2 years at around 2% pa, which are yet to be approved by Cabinet

Key pressure points:

- > Strong expectation by Government stakeholders of efficiency dividends being delivered in state highway and local road maintenance (Road Efficiency Group initiatives) and public transport (Public Transport Operating Model)
- > Pressure on HNO to deliver substantially increased State highway improvements programme - 25% increase on 2012-15 NLTP taking into account Crown appropriations, debt funding, new Regional Improvements activity class in draft GPS and NLTP revenue increase
- > Moderate headroom in GPS funding ranges for potential above plan demand for funding for local road and state highway maintenance (emergency works, input price increases and renewals volume)
- > Step up in delivery of local road improvements signalled by the draft GPS may not be achievable due to constrained local share
- > Prioritisation and programming difficulties and conflicts in state highway, local road and regional improvements, given mix of funding sources (NLTF, Crown and R funds) and stakeholder expectations around delivery of specific elements
- > Adapting to changes from the FAR Review and revised emergency works policy